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Alberta ECONOMIC OUTLOOK

APRIL, 1974

PROVINCIAL AFFAIRS

Some interesting changes in Alberta investment patterns are revealed in the **Annual Review of Private and Public Investment in Canada, Outlook 1974** prepared jointly by Statistics Canada and the Department of Industry, Trade and Commerce.

The most significant change is in the intended investment in the Primary and Construction Industry sector. Intended investment for 1974 is expected to be $1,667.2 millions, 35 per cent more than was achieved in 1973. As a result, this sector's share in total Alberta investment for 1974 will increase to 39.4 per cent from 35 per cent in 1973 and 33.5 per cent in 1972.

The figure for intended investment in Manufacturing during 1974 stands at $25.4 millions, an increase of only 0.5 per cent on the 1973 total. However, it must be remembered that manufacturing investment in Alberta during 1973 was a dramatic 54.9 per cent higher than investment in 1972 and such a pace could not be expected to last.

The Manufacturing sector will still have the smallest share of total investment in 1974 and in fact its share will be less than it was in 1973, 9 per cent as compared with 10.8 per cent. However, a definite upward trend in manufacturing industry as a proportion of the total is observable. The average share of manufacturing from 1963 to 1968 was 5.7 per cent but increased to 8.0 per cent for the period 1969 to 1974.

The gradual diversification of the Alberta economy towards manufacturing as indicated by its increasing share of total investment is also emphasized by the increasing proportion of total investment in machinery and equipment which is accounted for by the manufacturing sector. From 1963 to 1967 the share of manufacturing averaged 10.2 per cent, during 1967 to 1970 it averaged 9.2 per cent but from 1970 to 1974 it rose to 13.2 per cent. It is interesting to note that Ontario displays a reverse trend. The proportion of total investment in machinery and equipment attributed to manufacturing has declined from a high of 48.9 per cent in 1965 to a low of 34.1 per cent in 1973. It is expected to account for 34.4 per cent in 1974. While manufacturing has been becoming more important to the Alberta economy it has evidently become less so for Ontario's.

The Utilities sector continues to be the second most important in respect of investment. Intended investment in 1974 has been estimated at $674.1 millions, an increase of 22.2 per cent over what was achieved in 1973, and 15.9 per cent of total investment. Investment in utilities has been declining as a proportion of total investment in recent years, from a peak of 20 per cent in 1970 to a low of 15.6 per cent in 1973.

The growth of Housing investment is expected to slacken during 1974. Intended investment of $575.4 millions is only up 0.3 per cent on the 1973 figure. As a fraction of total investment, investment in housing has been declining since 1971, when it represented 18.1 per cent, to the 13.6 per cent it is expected to be in 1974. However, the average proportion in recent years has been higher than previously. From 1966 to 1970 it averaged 13.5 per cent but from 1970 to 1974 it has averaged 16 per cent.

Intended investment in Institutional Services and Government Departments is anticipated to be $517.5 millions, an increase of 17.8 per cent on investment in 1973. The proportion of total investment going into this sector shows a long term decline from an average of 19.7 per cent for the years 1967 to 1968 to an average of 14.5 per cent between 1969 and 1974.

Trade, Financial and Commercial Services investment has been slowly growing in importance from an average 7.2 per cent of total investment during 1963 to 1968 to 8.6 per

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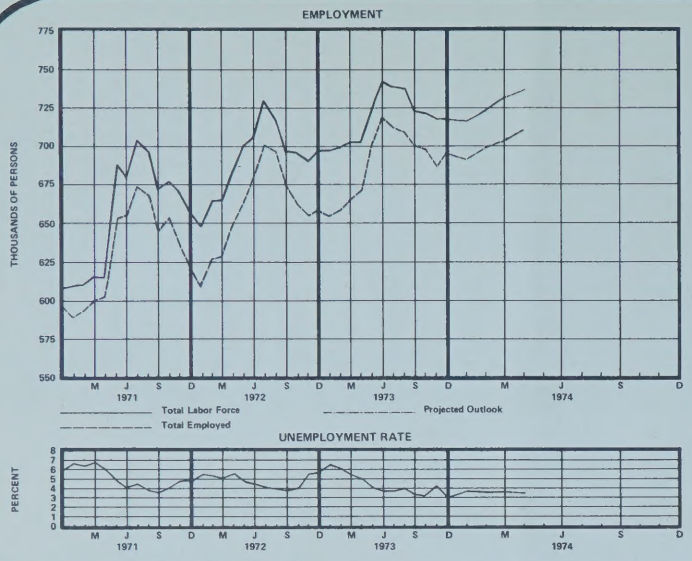
Alberta
INDUSTRY AND COMMERCE



EMPLOYMENT

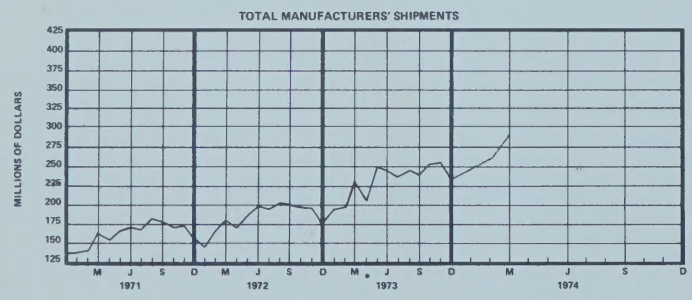
EMPLOYMENT	Actual Data				Forecast
	Mar./74	Feb./74	Mar./73	Apr./73	Apr./74
Labour force	731,000	623,000	700,000	700,000	736,000
Number employed	703,000	698,000	664,000	670,000	709,000
Number unemployed	28,000	25,000	36,000	30,000	27,000
Unemployment rate	3.8%	3.5%	5.1%	4.3%	3.7%

Comments: The unemployment rate continued to reflect the buoyancy of the economy, down 1.3 percentage points from one year ago. Prospects for May are similar increases in the labour force and number employed, leaving the number unemployed virtually unchanged.

RETAIL TRADE
$ Millions

Retail Trade	February		%	Jan. — Feb.		%	Forecast
	1973	1974	Change	1973	1974	Change	March 1974
Value of Retail Trade in Alberta	211.6	249.2	+17.8	426.5	498.1	+16.8	283.0

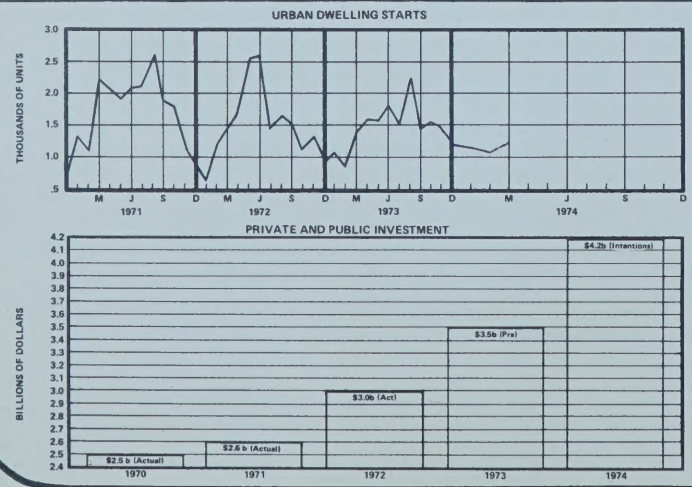
Comments: Prospects for April, 1974 indicates a further slight increase to a value of approximately $284 million.



MANUFACTURING SHIPMENTS
$ Millions

Manu-facturing Shipments	January		%	Jan. — Dec.		%	Forecast
	1973	1974	Change	1972	1973	Change	February 1974
Total manu-facturing shipments	190.0	245.2	+29.1	2375.2	2828.3	+19.1	260.0

Comments: Prospects for March, 1974 indicates a further increase to a value of approximately $287 million.

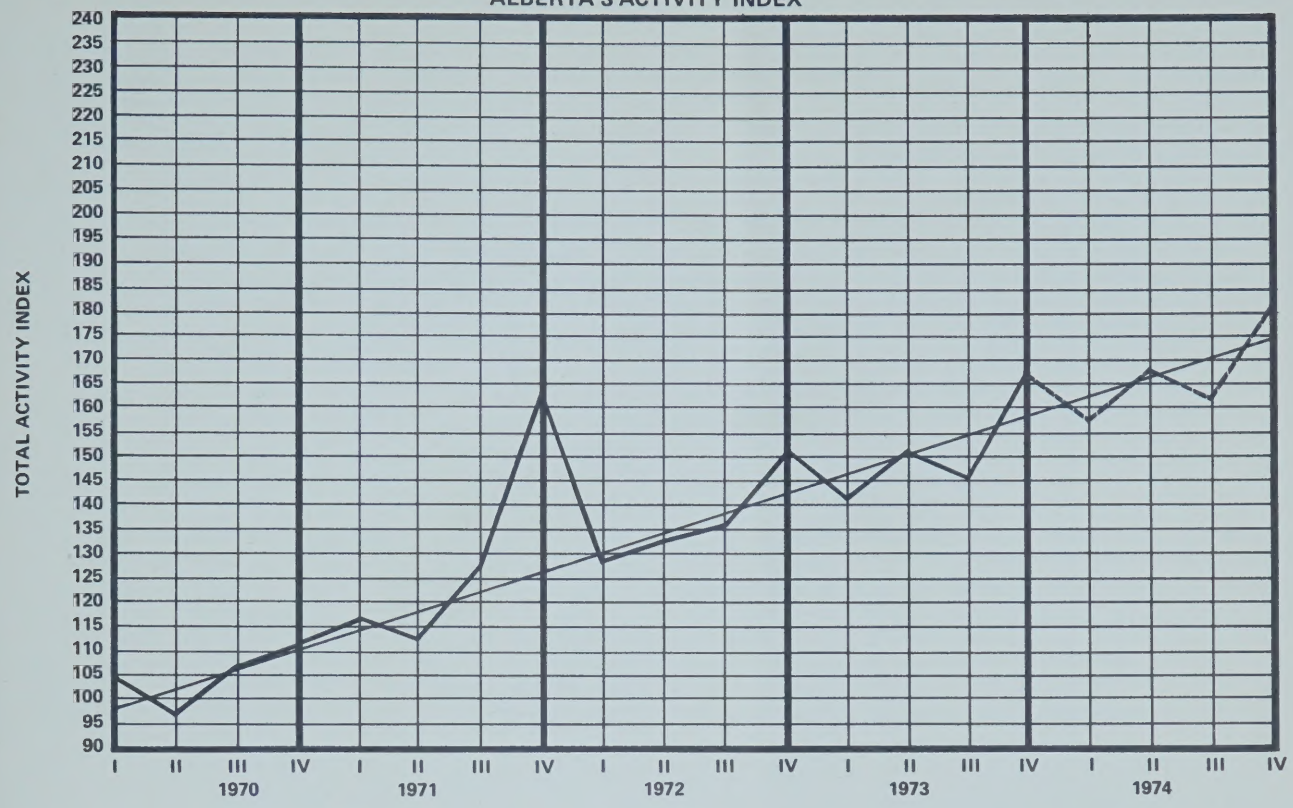


HOUSING

Urban Dwelling starts:	February		%	Jan. — Feb.		%	Forecast
	1973	1974	Change	1973	1974	Change	March 1974
Alberta total	793	1044	+31.7	1864	2218	+19.0	1238
Calgary total	424	413	- 2.6	878	1105	+25.9	—
Edmonton total	277	530	+91.3	682	879	+28.9	—

Comments: The March forecast places the first quarter of 1974 forecast for urban dwelling starts at 3,456, 7.9 percent above the same period of 1973. Mortgage financing was reported as plentiful in both Calgary and Edmonton in March, with mortgage rates averaging near the 10% mark in both centres.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1972 - 1971	 Total Year 1973 - 1972	 Year to Date 1974 - 1973
MANUFACTURING			
Slaughtered Meat Production	+ 3.3	- 2.2	- 5.3 (Jan.)
Slaughtered Meat Exported	+ 5.3	- 0.6	+ 7.6 (Jan.)
Refinery Production	+21.4	+10.0	+16.4 (Jan.)
Cement Production	+ 3.5	+ 7.8	- 19.0 (Jan.)
MINING			
Oil Production	+20.8	+19.6	+ 1.7 (Jan.)
Gas Production	+16.8	+ 7.3	+ 2.0 (Jan.)
Footage Drilled	+21.9	+28.3	- 5.9 (Jan.)
Number of Wells Drilled	+13.1	+33.2	+77.5 (Jan.)
Coal Production	+14.1	- 0.4	- 2.3 (Jan.)
CONSTRUCTION			
Urban Dwelling Starts	- 15.4	- 7.2	+19.0 (Jan. – Feb.)
Rigid Insulation Board Shipments to Alberta	+ 5.9	- 1.7	+16.5 (Jan.)
Value of Alberta Building Permits	+12.1	+20.0	+62.2 (Jan.)
AGRICULTURE			
Grain Shipments	- 2.9	- 16.4	+26.7 (Jan. – Feb.)
Livestock Marketed	- 1.6	- 6.4	N/A (Jan.
Farm Cash Receipts	+14.0	+32.3	+96.4 (Jan.)
FORESTRY			
Lumber Production	+16.0	+33.6	- 3.1 (Jan.)
Lumber Sales	+ 5.7	+17.5	- 9.1 (Jan.)
Lumber Exports	+24.7	+ 2.5	- 48.5 (Jan. – Feb.)
Pulp wood Production	+47.8	+46.6	+208.7 (Jan. – Feb.)

	MARCH 1974	FEBRUARY 1974	MARCH 1973	FEBRUARY 1973
UNEMPLOYMENT RATE (unadjusted)				
Canada	6.4	6.8	6.8	7.3
Alberta	3.8	3.5	5.1	5.6
CONSUMER PRICE INDEX (1961 = 100)				
Calgary–Edmonton	150.3	149.1	138.1	137.6

cent between 1969 and 1974. It is expected to account for 9.9 per cent in 1974.

NATIONAL AFFAIRS

The **Bank Rate** was increased from the 7¼ per cent to 8¼ per cent effective April 15th. With the exception of the Canadian Imperial Bank of Commerce, the chartered banks raised their prime rates from 9½ to 10½ per cent. The Canadian Imperial Bank of Commerce raised its prime rate to 10 per cent. Small business rates went up one per cent, again with the exception of the Canadian Imperial Bank of Commerce, which raised its rate by one-half of one per cent. Consumer rates have since been raised by one per cent by most banks, effective May 2nd.

The change in Bank Rate came in response to two stimuli: increasing U.S. interest rates and rapidly expanding bank credit. The prime rate in the U.S. has been rising since the middle of March from 8.5 per cent to its current level of 10.5 per cent as the Federal Reserve Board tightened its grip on the money supply. The gap between short term Canadian and U.S. interest rates which opened up caused an outflow of short term funds from Canada to the U.S. and in consequence the value of the Canadian dollar slid from around $103.17 U.S. to about $102.9 U.S. Because a high and appreciating Canadian dollar was being used by the Bank of Canada as one of its main counter inflationary weapons, this was an unwelcome development. One reason for the increase in Bank Rate therefore, was to close the gap between Canadian and U.S. short term rates and thus stem the outflow of funds and the dollar depreciation.

Bank general loans outstanding by April 3 increased by $1.66 billions from the February 13 level, an annual rate of increase in excess of 30 per cent. The inflationary implications of such a rapid increase are alarming. By raising Bank Rate the Bank of Canada has made it more expensive for chartered banks to borrow from it the funds which they require for customer loans. While large investment projects will probably be largely uneffected by the change, it should reduce the flow of funds to non-bank lending institutions and so dampen consumer credit.

INTERNATIONAL AFFAIRS

The General Agreement on Tariffs and Trade which sets the conditions under which world trade is conducted will be re-negotiated between the fall of this year and the end of 1975. Because Canada's industrial structure is largely a legacy of the Canadian Tariff and because more than one quarter of Canadian national income is normally earned directly through international trade, the Federal Government is viewing the upcoming negotiations to reduce trade barriers very seriously.

The reshaping of the Agreement could have important repercussions in Alberta. Cuts in the Canadian Tariff could lead to more competition for local industry and price reductions for those products which we now either import from abroad or purchase from Eastern Canadian industry. In addition, reductions in foreign tariffs and non-tariff barriers could open up potential export markets for Alberta business.

It is therefore very important that Alberta industries consider how their interests may be affected by tariff cuts and the adjustment of non-tariff barriers such as quotas, product standards and government purchasing policies.

The Alberta Department of Industry and Commerce is currently formulating a position on the renegotiation of the Agreement which will form part of a joint presentation to the Federal government by the Western Provinces. The Department will presently be contacting industry for their views.

BUSINESS OUTLOOK

Wood Gundy, in their April, 1974 issue of **Invest**, are forecasting a moderate rate of growth for the Canadian economy during 1974 but a higher rate of inflation that we experienced in 1973. The main features of the forecast are set out below.

	Actual 1973 $ billion	1973	1974 est.	1975 est.
Gross National Product	$118.7	14.8%	12.9%	11.3%
Real GNP ($1961)	76.8	7.1	4.1	4.9
GNP Deflator (1961 = 1.000)	1.545	7.2	8.5	6.1
Consumer Spending	69.1	14.6	12.7	11.6
Government Spending (total	27.4	11.8	10.8	10.8
Residential Construction	6.5	20.9	4.2	11.7
Business Spending Plant and Equipment	15.3	18.1	18.5	14.2
Exports of Goods and Services	30.0	22.3	19.2	10.1
Imports of Goods and Services	30.7	21.2	18.3	10.5
Corporate Profits (pre-tax)	14.3	36.9	19.2	7.4
Corporate Profits (after tax)	10.1	42.9	18.2	8.1
Unemployment Rate (level)	5.6%	———	5.7%	6.0%

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